

February 25, 2021

Research Flash Update

Essential Utilities, Inc.

(WTRG/NYSE)

Rating/Risk:	Outperform/Moderate
Price:	\$44.09
Target Price (\$US):	\$54.00
Market Cap (\$US millions):	\$11,550
ADTV (US\$ millions):	\$61.0
Target Price and Rating are for 12 months.	

Estimates	EPS		Revenue (Net)		P/E
	B&S	Cons.	B&S	Cons.	
2019A	\$1.00	-	\$889.7	-	44.0x
2020A	\$1.12	-	\$1,463	-	39.4x
2021E	\$1.68	\$1.68	\$1,877	\$1,983	26.3x
2022E	\$1.80	\$1.81	\$1,952	\$2,163	24.4x

FYE 12/30; Revenue in USD millions.

All historical EPS and B&S EPS estimates GAAP.

Source: Capital IQ, B&S Estimates

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4Q solid yet anti-climactic after guidance update call; All eyes on PUC as DELCORA ruling looms.

Essential posted 4Q20 EPS of \$0.40, up from \$0.28 a year ago, with the upside driven by the addition of Peoples and organic growth also contributing. Revenue more than doubled year/year (+109.7%), with Peoples adding \$240 million, or 106.4%. Ex-Peoples, revenue rose 3.3% on a combination of higher volumetric sales, rates/surcharges, and acquisitions. Seasonally high purchased gas costs (\$93 million, or 20% of sales vs. 7% in 1Q-3Q) pressured margins, with operating margin down 220 bps sequentially to 28%. Of note, one-time credits to gas customers related to the Peoples deal hit EPS by \$0.06.

Essential acquired six water/WW systems totaling 12,000 customers for \$63 million in 2020, and currently has APAs in place for a further 227,000 in connections. The largest is the \$276 million acquisition of DELCORA, which was dealt an adverse ALJ ruling last month. Still, we see the three major issues raised by the ALJ (rate stabilization fund, local municipality protests, and potential appeal of a favorable DelCo Ct. of Common Pleas ruling) ultimately turning in Essential's favor. Essential expects a PA PUC decision by March 2021.

Essential was awarded \$21 million in base rates and surcharges in 2020, including in Illinois, Indiana, Kentucky, North Carolina, Ohio, Pennsylvania, and Virginia. Year-to-date, the company has received \$8.5 in rates/surcharges across New Jersey, NC, OH, and PA, and has \$1.8 million pending in IN and VA. Though not immaterial, this pipeline of rate activity is light by the company's historical standards, which we see as timely. Essential had just completed a number of major rate cases before COVID-19, and therefore does not have to seek major rate hikes during these difficult times for customers.

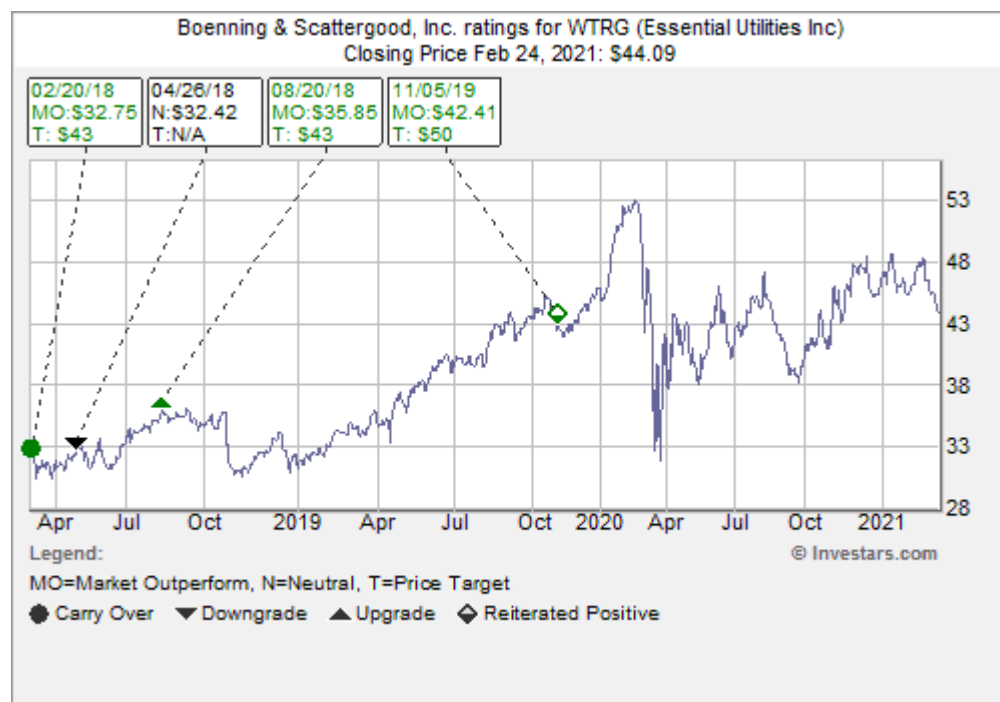
Essential's fourth quarter report is somewhat of a non-event, as the company stole its own thunder with its January 11 guidance release and conference call. Predictably, management reiterated the 2021 guidance of \$1.64-\$1.69 issued last month (one wildcard 2021 issue to watch is the EPS impact of the Texas situation). Essential also reiterated its 5%-7% EPS CAGR target through 2023, and we see the company as well positioned to deliver the top growth rate across the regulated water/multi-utility peer group over this timeframe.

WTRG and peers have underperformed notably in recent days due in part to rising inflation concerns, despite the fact that the data show utilities outperform the broader market during inflationary periods (for details, see our industry report today). We believe WTRG shares offer a compelling reward/risk equation, with our \$54 target reflecting a P/E of 32 times, in-line with the water utility peer group.

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Disclosure Appendix

Rating and Price Target History:



Risk Factors

The realization of any or all of the following risk factors, among others, may adversely affect the company's stock price and prevent it from reaching our price target: the economic cycle, concentration in energy sector, foreign currency exposure, and client concentration.

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Boenning & Scattergood has managed a public offering and received compensation from the subject company within the past 12 months.

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- **Moderate:** The security has average fundamental predictability and/or average price volatility.
- **High:** The security has lower-than-average fundamental predictability and/or higher-than-average price volatility.
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Coverage Universe (a)	% of Universe	Investment Banking Clients (b)	% of Rating Group
Outperform (Buy)	38%	Outperform (Buy)	22%
Neutral (Hold)	49%	Neutral (Hold)	3%
Underperform (Sell)	1%	Underperform (Sell)	100%
Not Rated	13%	Not Rated	0%

(a) Related to services provided within the past 12 months.

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